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1: Program Description

The Neighborhood Impact Program (NIP) is part of the Homeownership Initiatives Programs. NIP provides rehabilitation assistance to homeowners with household incomes at or below 80% of the area median income. The maximum subsidy that can be requested per household is \$7,500.

The NIP subsidy request per household shall be no less than \$1,000.

NIP may be amended at any time with input from the Federal Home Loan Bank of Indianapolis (“FHLBI” or the “Bank”) Council and approval by the Board. Funding announcements may be revoked by the Board without notice. The Bank also reserves the right to reallocate funds among programs to meet program demand and to ensure utilization of all funds but is not making an allocation at this time.

2: Member Participation Requirements

Institutions that are current members of and eligible to borrow from the Bank may participate in NIP. The Bank does not accept applications from institutions with pending applications for membership in the Bank. A list of eligible members may be obtained from a directory at <https://www.fhlbi.com/>

A. *Registration:*

All members must sign and submit a **Homeownership Initiatives Master Agreement and Registration and Certification Form**, which allows it to participate in all Federal Home Loan Bank of Indianapolis Homeownership Initiative Programs. Members will be responsible for all terms and conditions contained in the **Homeownership Initiatives Master Agreement and Registration and Certification Form**, including, but not limited to, the requirements outlined in this document.

B. *Training:*

All NEW users of the program will be required to participate in training that will provide information and instructions on program guidelines, disbursements, and documentation requirements. NEW users are defined as those members who have never participated in the program or those who have not received a disbursement in the prior two years. *At a minimum, either the member's Primary or Secondary contact is required to participate in the training.*

C. *Submitting Disbursement Requests:*

Upon approval of the **Homeownership Initiatives Master Agreement, Registration and Certification Form** and completion of required training, members will receive a **Starter Kit** with all of the information and forms needed to start requesting disbursements.

3: Funding – Use, Limits, and Availability

- NIP funds may only be used to pay for approved eligible rehabilitation/repair costs unless otherwise noted.
- NIP funds cannot be used to pay for fees charged by members or sponsors for providing the subsidy to a homeowner.
- NIP subsidy may be used to pay for the real estate Retention Agreement recording fee up to a maximum of \$30. In the event the full amount of disbursed subsidy is returned, subsidy used for the recording fee must also be returned.
- The rate of interest, points, fees, and any other charges for all loans that are made for the project in conjunction with the AHP subsidy shall not exceed a reasonable market rate of interest, points, fees, and other charges for loans of similar maturity, terms and risk.
- Each participating member will be limited to **\$300,000** in annual NIP funds, unless such limit is waived by the Board.

- Homeownership Initiatives Programs funding will be announced in the spring. Funds will be made available on a first-come first-serve basis until all funds are exhausted.
- Throughout the program year, the remaining amount of funds available will be published on the Bank's Web site at least bi-weekly.

4: Member Requirements

Members must provide funds only to homeowners who meet the income guidelines as described in *Attachment D* of the current Affordable Housing Program Implementation Plan (Plan).

- The Member is responsible for compliance with all applicable laws, regulations, and with this Plan.
- Members must enroll each household in a Federal Home Loan Bank ("FHLBI" or the "Bank") Homeownership Initiatives Program. The enrollment date is defined by the Bank as the date on which the member issues a qualification or other such loan commitment or enrolls the household in an FHLBI Homeownership Initiatives Program.
- Members must submit a disbursement request to the Bank within **30 days** after enrollment of the household into an FHLBI Homeownership Initiatives Program.
- Members must ensure that all units are occupied by all individuals with a present possessory interest (other than a leasehold interest) in the property.
- Members must confirm that the recipient owners have owned the property in fee-simple for at least **18 months prior to enrollment**. Individuals who during this period took title to the property in whole or in part due to a finalized divorce decree or the death of an additional title holder(s) may also include the period of time the property was owned by the deceased title holder. No additional persons may have held title to the property during the **18-month** period other than the aforementioned parties.
- Members must provide subsidy only to homebuyers who meet the income guidelines as described in *Attachment D* of the current Affordable Housing Program Implementation Plan (Plan).
- Members must ensure that proposed costs are reasonable based on the local market.
- Members must ensure that rehabilitation work performed meets the requirements outlined in the *Rehabilitation Requirements* section of this attachment.
- For properties that include a home-based business, members must certify that the grant funds will not be used to cover costs to rehabilitate areas of the home exclusively designated for business use.
- Members must ensure that NIP-assisted units are subject to a Retention Agreement provided by the FHLBI that meet requirements of §1291.9 of the Regulation. See *Attachment E* of the Plan for sample approved retention language.
- Members must comply with the Bank's requirements to provide copies of retention agreements, rehabilitation closing statements and other documentation as described in this document.
- Members must maintain project files with all applicable information for all grant recipients.
- Members must ensure that NIP funds are not used to pay for fees charged by members or sponsors for providing the subsidy to a homeowner.
- Members are advised to exercise due diligence in qualifying NIP transactions and obtain the following items for review *prior* to approving a NIP grant to ensure that the funds will be provided to households stable in their financial affairs.
 - Verification that legal title is vested in applicant(s) only

- A title search that will provide information on outstanding liens and property tax information to ensure the homeowner is not in default on obligations which could affect home retention
- Credit reports to provide information on credit obligations that could affect home retention
- Homeowner's insurance verification to ensure that the home is properly insured
- Pictures of home or areas to be repaired/replaced prior to commencement of work
- Members must certify that the recipient(s) and the proposed transaction meet all eligibility requirements for NIP funds.
- The Bank may conduct on-site compliance reviews.

5: Recipient Requirements

Recipients of NIP funds must meet all of the following requirements.

- Recipients must have household income that is equal to or less than 80% of the area median income (AMI) adjusted for family size as published annually by HUD. (Refer to the Bank's Web site for current AMI charts.)
- Recipients' existing mortgage obligation for the subject property must be current and paid as agreed.
- Recipients must sign an acknowledgement identifying the contractor which is being used for the repairs.
- Members must confirm that the recipient owners have owned the property in fee-simple for at least **18 months prior to enrollment**. Individuals who during this period took title to the property in whole or in part due to a finalized divorce decree or the death of an additional title holder(s) may also include the period of time the property was owned by the deceased title holder. No additional persons may have been in title to the property during the 18-month period other than the aforementioned parties.
- Duplexes are eligible as long as the homeowner occupies one-half as the primary residence and 75% of the projected income generated from the other unit(s) is included in the NIP income qualification process. Projected income must be included in household income whether or not homeowner intends to rent the other unit(s).
- NIP funds may only be used to provide assistance to rehabilitate an owner-occupied residence. Home-based business rehabilitation is not an eligible stand-alone use under the NIP. For eligible households whose home-based business is also located in the housing unit or on the property, NIP funds may be used if the primary purpose of the proposed rehabilitation is to rehabilitate and provide general benefit to the residence. Proposed rehabilitation that will only benefit the area of the home exclusively designated for business use is not an eligible use under the NIP. This policy applies whether or not the income generated from the business activity is the primary or secondary source of income to the household.
- Lease/purchase arrangements and land contracts are not eligible ownership structures.
- All properties must be titled as real estate and be permanently affixed to a permanent foundation.
- All persons in title to the property must sign retention documents described below in *Real Estate Retention Period*. Transactions that require or involve non-occupying co-borrowers, co-owners, co-signers, or guarantors are not eligible for NIP.
- Recipients must provide all documentation to the member as required for participation in the program.
- Recipients cannot receive, for the same property, more than one FHLBI grant of any kind, or more than one grant from any Federal Home Loan Bank, unless prior grants have been repaid or retention period has expired.

- Applicants may not be students with part-time or no income while in school who ordinarily would have a reasonable prospect for a substantial increase in income exceeding the AHP income eligibility limit upon entering the workforce fulltime. In determining an applicant's eligibility, the FHLBI will consider factors including, but not limited to, the applicant's current student status, number of hours currently enrolled, anticipated date of graduation and field of study. Supporting documentation will be required.

6: Rehabilitation/Repair Requirements

Eligible repairs must address deferred maintenance needs of the home. Funds may only be used for repairs to the livable space of the home. Rehabilitation and repair of systems materials must be of similar quality, like and style. FHLBI may exercise discretion in determining if repairs are eligible for funding. Members must execute a certification of cost reasonableness and maintain copies of all bids obtained to support the proposed work.

Rehabilitation/repair work completed prior to enrollment may not be paid for with NIP funds.

A. Eligible Rehabilitation/Repair

The following types of repairs are eligible for funding under NIP:

- Repair/replacement of existing heating, ventilation, air conditioning
- Repair/replacement of existing well/septic system or underground property sewer system*
- Repair/replacement of existing water heater
- Energy conservation improvements – includes repair/replacement of existing:
 - Windows
 - Soffit and Fascia
 - Siding
 - Roofing
 - Gutters
 - Downspouts
 - Caulking
 - Exterior doors
 - Weather stripping, attic and wall insulation
 - Plumbing – replacement of complete and partial plumbing systems, not fixtures
 - Electrical – replacement of wiring that prevents a home from meeting current code requirements for its area

* Additional documentation may be required.

If the homeowner is a licensed contractor and requests to perform the NIP-eligible repairs on his/her own home, these guidelines must be followed:

- 1) The homeowner must be licensed in the same field of the proposed repairs, i.e., if the proposed work is roofing, the homeowner must be a licensed roofer. A copy of the contractor's license must be submitted with the disbursement request.
- 2) The cost of labor is not an eligible NIP expense.
- 3) A minimum of two bids for the proposed work must be obtained from independent third parties. The bids must itemize the costs for both labor and material separately.

- 4) The household will need to provide receipts to correspond with the necessary supplies for the proposed work.
- 5) The member needs to order an independent third-party inspection to verify the repairs were completed as indicated.
- 6) Before and after pictures are required.

B. Ineligible Rehabilitation/Repair

In general, improvements in functionality/modernization, changes for elimination of obsolescence, luxury items, improvements that do not become a permanent part of the property, and installation or repair of items listed below are not eligible improvements. The list is not all-inclusive and the Bank suggests that members use prudent decision-making when approving requested improvements. **Any exceptions should be pre-approved by the Bank.**

- Additions or alterations for commercial use
- Porches, detached garages, etc.
- The finishing of attics, basements, etc.
- Furniture and appliances
- Landscaping or tree work
- Fences
- Room additions
- Driveways and sidewalks
- Awnings and shutters

7: Real Estate Retention Period

All funds to be repaid or returned must be calculated using the **Retention Agreement Guide and Subsidy Repayment Worksheet** (Worksheet), which can be found on the Bank's Web site. The Worksheet outlines specific repayment provisions and calculations for repayment or return of subsidy in accordance with the Real Estate Retention Agreement or in the event the subsidy is unused.

A household must repay a pro-rated amount of the funds if it sells or refinances the unit during the five-year retention period UNLESS one of the following exceptions applies:

- In the case of a sale, the purchaser is very low-, low- or moderate-income;
- In the case of a refinancing, the household agrees to continue to be subject to a Retention Agreement, deed restriction or other legally enforceable retention mechanism as described in §1291.9(a)(7) after the refinancing for the balance of the original retention period; or
- The household had obtained a permanent mortgage funded by an AHP subsidized advance and not a direct subsidy.

The household only repays the subsidy from the net gain from either a sale or a refinancing. If there is no net gain, the household does not repay any subsidy. If the net gain is greater than the pro-rated amount of the subsidy, the household must repay the pro-rated amount of the subsidy. If the net gain is less than the pro-rated amount of the subsidy, then the household must repay only the net gain amount. For NIP households, the original purchase price may be an estimate, supported by reasonable third-party documentation, if the property was not purchased recently.

These terms also apply to any future, subsequent refinancing(s) during the retention period unless the Retention Agreement has otherwise terminated.

The net gain is defined as the sales price of the home, or the amount of the new first mortgage after the refinancing of the home, minus the original purchase price, purchase-related closing costs and the costs associated with the sale (including seller concessions) or refinancing of the home. If the household made substantive improvements to the property, which add to the property's basis, then the costs of those improvements must also be deducted. This information is included in the Worksheet.

In the event the subsidy has been provided to the member, is unused and is not provided to the household, FHLBI does not consider the subsidy disbursed to the household and the subsidy must be returned.

Once the Worksheet has been completed, it should be printed and returned along with the HUD-1 Settlement Statement/Closing Disclosure for the current sale of the property, to the Bank with instructions to the Bank to withdraw the funds from the member's FHLBI CMS account, assuming funds are owed or unused.

The lien securing the subsidy must be released.

8: Disbursement Process

Disbursements should be submitted following the steps and guidelines below:

- 1) Federal Home Loan Bank of Indianapolis Disbursement Authorization Form (in Excel workbook). The Disbursement Authorization Form must be signed by an FHLBI authorized signatory and must accompany each disbursement. If members require assistance identifying an authorized signatory, please call 1-800-688-6697. Because original signatures are required, we cannot accept requests via facsimile.
- 2) Federal Home Loan Bank of Indianapolis Household Qualification Form (in Excel workbook)
- 3) Federal Home Loan Bank of Indianapolis Fund Manager
- 4) Federal Home Loan Bank of Indianapolis Income Calculation Worksheet and corresponding income documentation as outlined in *Attachment D, Income Guidelines*
- 5) Zero Income Affidavit, if applicable
- 6) Federal Home Loan Bank of Indianapolis Certification of Cost Reasonableness executed by the member.
Note: The certification must be supported by a minimum of two independent, third-party bids/estimates for each proposed repair, which must be maintained in the member's file.
- 7) Other supporting documentation, such as photos, may be required and must be available for review by the Bank upon request.

Funds should not be requested earlier than **60 days** prior to the estimated closing date, which is the date the Retention Agreement is recorded. During times of normal volume, disbursement requests should be reviewed and/or approved within ten business days. Upon approval, the funds will be credited to the member's FHLBI CMS account.

No substitutions of households will be allowed. The member must pass the entire amount of the AHP subsidy to the household.

Disbursement Recommendations

- a) Consider establishing an escrow account to disburse funds as the work is completed.
- b) Request that the homeowner provide you with invoices and make checks jointly payable to the contractor or other service provider and the homeowner.
- c) Take before and after photos.
- d) If time permits, consider doing property inspections.
- e) Require all work completed by a licensed/bonded contractor.

- f) Consider requiring the homeowner to certify that work has been completed satisfactorily prior to issuing payment.
- g) Have the homeowner sign the Retention Agreement prior to the start of the rehabilitation work.
- h) If work is being performed by a related party to the homeowner, ensure that all repairs included in the original bid are being completed and funds are being used for said repairs.

9: Post-Disbursement Requirements and Documentation

Real Estate Retention Agreement Recording

The real estate Retention Agreement must be recorded within **30 days** of disbursement. The recordation date must be submitted for *every* unit to the Bank via the **Fund Manager** (Excel spreadsheet from Starter Kit). If the recorded Retention Agreement has not yet been received, at a minimum, a receipt of recording may be used to determine the recording date. Extension requests will be reviewed on a case-by-case basis.

Rehabilitation Closing

Within six months of the Bank's disbursement, all repairs should be complete, and the member should have paid all invoices for services performed. The member is responsible for managing the progress and completion of the repair project. The Bank requires that the **Rehabilitation Closing Statement (RCS)** be completed upon completion of all repairs. The form is available on the Bank's Web site. Members must ensure that the appropriate subsidy amount received from the FHLBI is clearly identified. Members are required to sign the RCS. Other items that should be clearly reflected on the statement are:

- All sources of matching funds,
- The total cost of the repair including an itemized description of and amounts associated with each home repair.

10: Monitoring, Reporting, and Documentation

Semi-annually, the Bank will request documentation for a randomly selected sample of households. The documentation requested may include any of the documents that members are required to maintain in their files. Members have 30 days to submit the requested documentation. If documentation is not received within 30 days, the Bank reserves the right to deem the member to have violated the terms of the award and debit the member's CMS account for the appropriate amount. The member will then need to reapply for funding for the particular household, subject to funding availability. At a minimum, members should maintain the following documentation in their files for every NIP recipient:

- 1) A copy of the disbursement request and all documentation obtained and used to qualify the household at enrollment.
- 2) Final, fully-executed Rehabilitation Closing Statement, executed by both the homeowner and the member.
- 3) Executed and recorded retention document executed by all owners in the legal title.
- 4) Original bids to support the executed Certification of Cost Reasonableness.
- 5) Final cost verification for rehabilitation work performed evidenced by copies of final invoices, receipts and cancelled checks or similar forms of payments to the contractor(s).
- 6) Evidence of matched funds in the form of copies of final invoices, receipts or cancelled checks.

On-Site Monitoring

At the discretion of the Bank, participating members may be selected for monitoring review. During reviews, which are held at the member's place of business, the Bank reviews the member's policies and procedures

for administering NIP and a sampling of the grant recipient files. The Bank reserves the right to review all files if sampling indicates compliance issues.

11: Income Guidelines (see *Attachment D*)

All members must use the income guidelines as outlined in *Attachment D* of the current Plan. Households must have incomes at or below 80% of the median income for the area at the time the household is accepted for enrollment by the member.